



# The Real Estate TRENDS

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1947

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**T**HE outlook for the balance of 1947 and for at least the first part of 1948 is much better than it seemed it would be a short time ago. The backlog demand for steel, automobiles and agricultural products is still extremely large and will probably stay ahead of supply during 1948. The almost certain adoption of some variation of the Marshall Plan will prevent any collapse in prices during the near future, and the cost of building which had started to drop is again moving upward with at least a sideways movement indicated for 1948. If the cost of new building does not fall, the values of existing buildings will not shrink as rapidly as they otherwise would, although the number of new units being built will eventually dissipate the housing shortage, with a resulting loss in the large scarcity premium which older buildings have been enjoying during the period of the shortage.

It seems to us that the liquidation period, particularly for residential properties, is being extended and that there is a possibility that present values will not change by too large a percentage during the next year or possibly even two years or more.

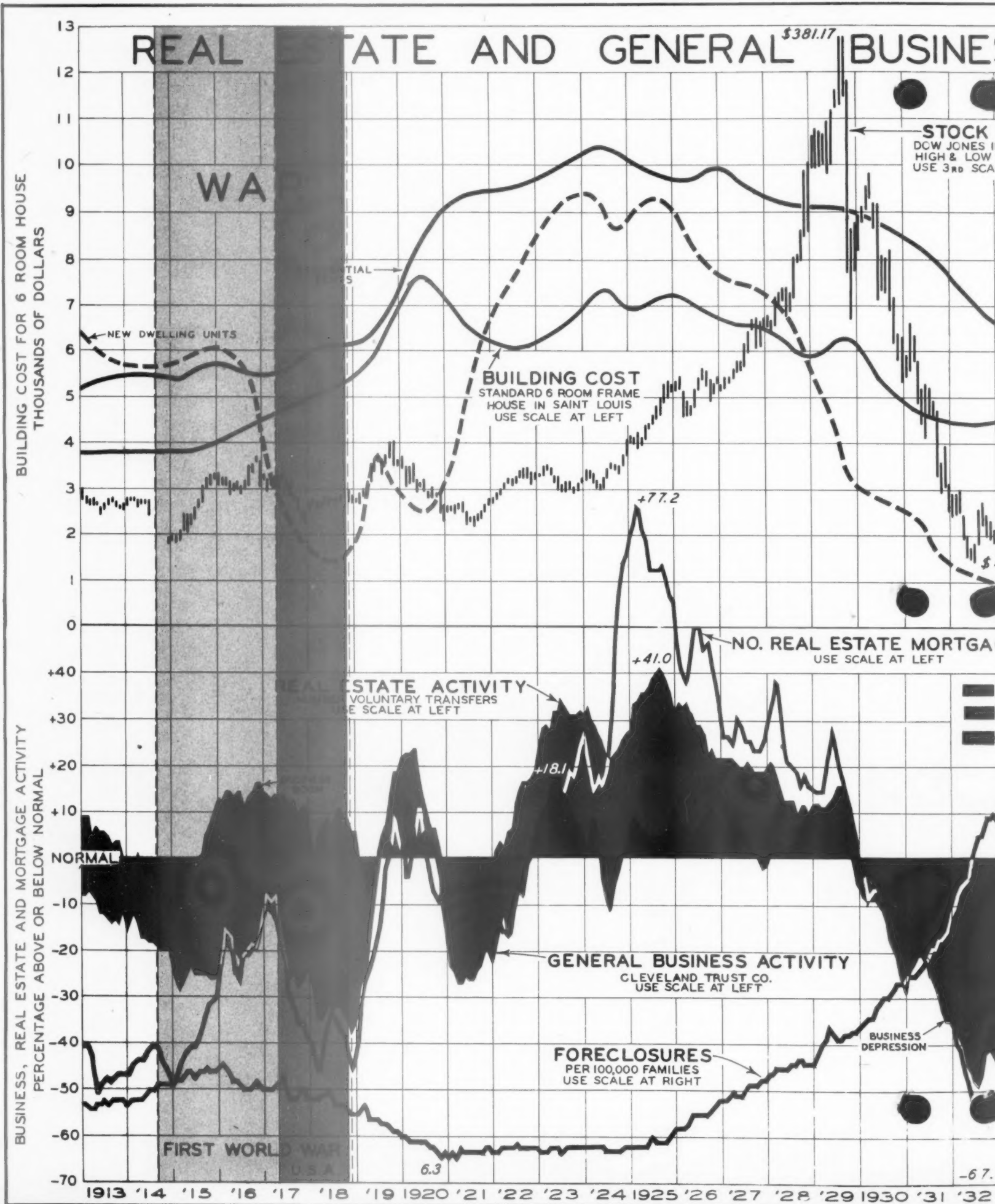
This does not change in any fashion, however, our belief that the present time is a good time to sell rather than to buy typical residential properties. There is only a very slight possibility that prices will go higher and over a period of years a very strong probability that they will go considerably lower.

The lengthening of the present period, however, will be of great value to mortgage lenders who have made amortized loans in the recent past. The longer loans of this sort can run before serious trouble develops, the larger will be the amounts paid down on the principal and the loans will enter the distress period on a far more favorable basis than would be the case were the distress period already upon us.

## REAL ESTATE ACTIVITY

A glance at the chart on the center spread of this report will show that real estate activity in the typical American city has declined by a very large percentage from May of 1946 when it hit a peak on our index of 86.1 per cent above the long-term computed normal. The preliminary figure for the month of September is 41.1 per cent above this normal. This is slightly higher than the figure for July, but the increase is not large enough to be significant.

It looks, however, as if the rapid drops which took place in the latter part of 1946 and the early part of 1947 have slowed down and that there might be a possibility of a sideways movement or of even a slight increase in activity during the next six months, followed by a further gradual shrinking in the number of transactions. In all



# BUSINESS INDICATORS

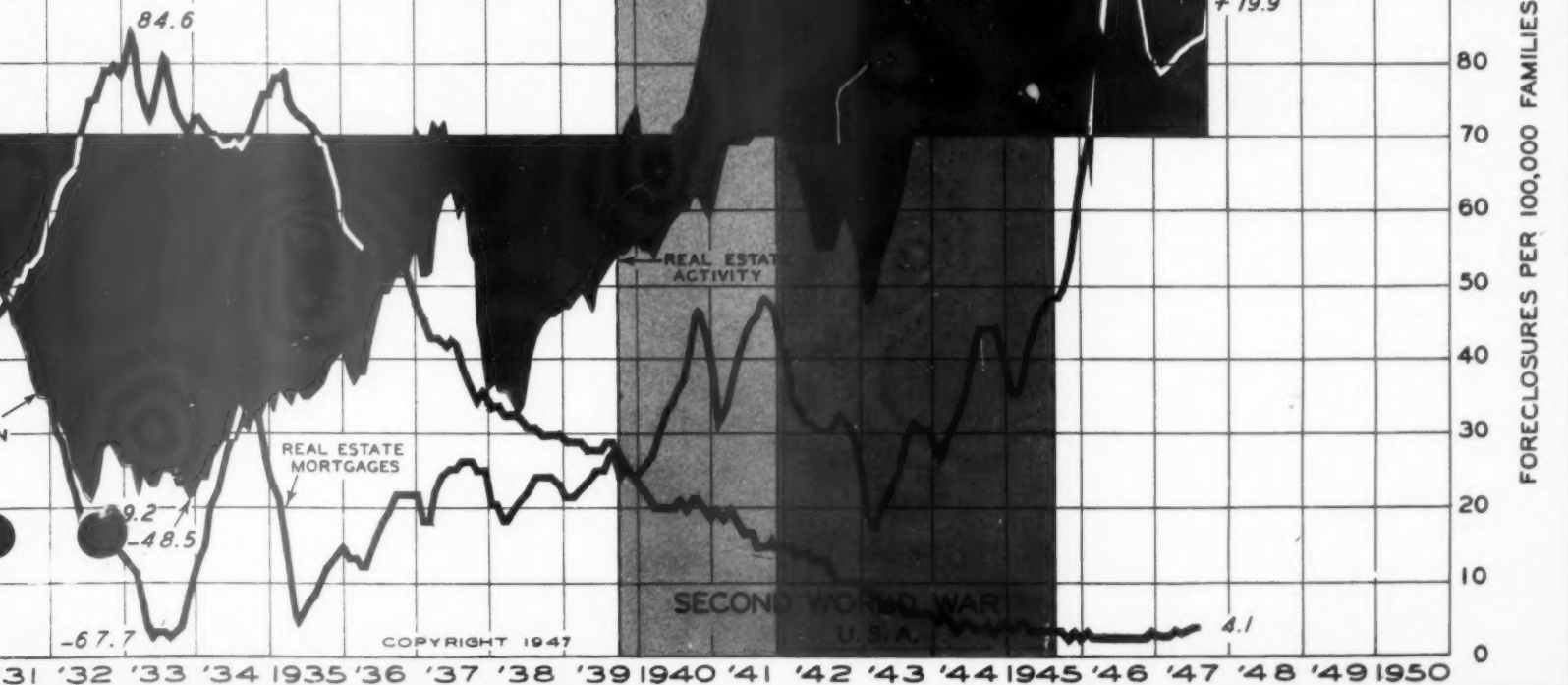
ROY WENZLICK & CO.  
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS  
SAINT LOUIS

STOCK PRICES  
DOW JONES INDUSTRIALS  
HIGH & LOW FOR MONTH  
USE 3RD SCALE AT RIGHT



MORTGAGES  
LEFT

- REAL ESTATE ACTIVITY
- BUSINESS ACTIVITY
- REAL ESTATE & BUSINESS ACTIVITY OVERLAPPING



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## INCREASES IN BUILDING COSTS SINCE 1939

(SAINT LOUIS)



### 30-UNIT REINFORCED CONCRETE APARTMENT

Content: 303,534 cubic feet  
21,372 square feet

Cost 1939: \$135,000

(44.5¢ per cubic foot; \$ 6.33 per square foot)

Cost today: \$260,899

(86.1¢ per cubic foot; \$12.21 per square foot)

INCREASE OVER 1939 = 93.2%

### 18-FAMILY BRICK APARTMENT (FRAME INTERIOR)

Content: 168,385 cubic feet  
13,260 square feet

Cost 1939: \$ 60,300

(35.8¢ per cubic foot; \$4.55 per square foot)

Cost today: \$121,302

(72.1¢ per cubic foot; \$9.16 per square foot)

INCREASE OVER 1939 = 101.0%

### SIX-ROOM BRICK HOUSE WITH FRAME INTERIOR

Content: 23,100 cubic feet  
1,520 square feet

Cost 1939: \$ 6,400

(27.7¢ per cubic foot; \$4.21 per square foot)

Cost today: \$12,801

(55.5¢ per cubic foot; \$8.42 per square foot)

INCREASE OVER 1939 = 100.0%



### SIX-ROOM FRAME HOUSE

Content: 25,376 cubic feet  
1,650 square feet

Cost 1939: \$ 5,894

(23.2¢ per cubic foot; \$3.57 per square foot)

Cost today: \$13,074

(51.5¢ per cubic foot; \$7.93 per square foot)

INCREASE OVER 1939 = 122.0%



### FIVE-ROOM BRICK VENEER HOUSE

Content: 23,913 cubic feet  
1,165 square feet

Cost 1939: \$ 5,440

(22.7¢ per cubic foot; \$4.67 per square foot)

Cost today: \$11,538

(48.5¢ per cubic foot; \$9.90 per square foot)

INCREASE OVER 1939 = 112.0%





probability, however, it will be a number of years before real estate activity sinks below the long-term computed normal.

#### NEW CONSTRUCTION

The number of new dwelling units started per year per thousand families shown on the long chart in this report has taken a large jump during the past six months. During all of 1946 and the first half of 1947 new building in the principal urban areas of the United States was proceeding at an average rate of approximately 21 new family accommodations per year per thousand families. Since the removal of controls on new building it is now up to 33.4 new family accommodations per year per thousand families. This is an increase of approximately 50 per cent over the rate which prevailed on a planned economy basis. Builders, building material manufacturers and dealers constantly insisted during the entire period of controls that these controls were hindering rather than aiding the construction of new dwelling units, and apparently their contentions were correct.

#### BUILDING COSTS

The cost of building the standard six-room frame house in St. Louis for October is \$13,074. This is an increase of \$139 over the September figure. It is still \$96 below the peak of last April. It is \$313 above the low point of last July.

A glance at the long chart in this report will show that there has been relatively little change in the cost of building this house during all of 1947. The principal movement during this time has been a sideways movement. It seems entirely probable that this sideways movement will now continue, at least during the first half of 1948. Additional increases in freight rates will offset drops in some of the items of cost so that no great change can be anticipated in the relatively near future. Since over the long period the values of all existing buildings are affected by the cost of the new buildings added to the supply to take care of the demand, this sideways movement during the next six months should have some stabilizing effect on the values of existing buildings, although the older properties will continue to suffer a shrinkage in scarcity premium as new building proceeds and the housing shortage shrinks.

#### REAL ESTATE MORTGAGES

Mortgage activity increased by a fairly sizable percentage last month, bringing it to the highest point since the mid-part of 1946. This index is based on the number of real estate mortgages.

From the standpoint of the dollar volume, the showing in relationship to the 1946 total is considerably more favorable as at the present time a number of larger mortgages are being made due to the 608 activities of the FHA. It seems to us that mortgage activity will increase still further during the balance of the year, although many mortgage lenders are rightly becoming more critical of large percentage loans on older and more obsolete properties. A large part of the mortgage lending which is being done at the present time is being done on a basis where the Federal government is guaranteeing the principal amount loaned.

Without the Federal guarantees a very large percentage of the loans which are being made would be considered unsound.



## FORECLOSURES

The continued strength in building material prices will prevent as rapid a rise in foreclosures as we would experience if building costs dropped sharply. When they do eventually drop and it becomes possible to build new buildings at a considerably lower level than the cost of buildings built in the recent past, many properties will get into trouble. If this period, however, is delayed long enough, loans which have already been made may be down to a reasonable basis. Considerable caution should be used, however, in making new loans at today's high selling prices.

## GENERAL BUSINESS AND THE STOCK MARKET

When the stock market had its large drop slightly more than a year ago, it was an indication that supposedly informed investors were less optimistic about the outlook for general business than they had been in the preceding months. As a general thing the reaction of the market is a fairly reliable guide to the business outlook. This reaction is caused by the sum total of all persons buying and selling at the time. Many of these persons are well informed on the particular fields in which they are investing and some of them have considerable confidential and inside information which may not become public until a much later time.

In retrospect, however, there is no question now but what these so-called informed investors were mistaken on the outlook, as business has cleared all hurdles and it now seems that there is little chance of its being tripped up, at least during the first part of 1948 and probably throughout the year. There seems to be a strong probability that while 1948 will probably not equal 1947 on a dollar basis, it will closely approach it and will surpass all previous years.

In view of this situation the stock market is starting to look slightly more attractive than it did some time ago. If the reaction from the recent high does not penetrate the dip which preceded it, it seems that the chances are better than even that the market will advance considerably further.